

The Role of SMEs in Modern Economy

Ludovica Ioana SAVLOVSCHI¹

Nicoleta Raluca ROBU²

ABSTRACT

The worldwide experience proves the special role and the importance of small and medium enterprises within the national economies.

After the ascension of the last three decades, it is thought that the small and medium enterprises will be in the next period the main vector of the economic progress, both in the developed countries and the ones in transition. On the one hand, the attributes of small and medium enterprises situate this type of organization in the foreground of economic development. On the other hand, the coordinates defining the new configuration of the world economy are favourable to the expansion of the small and medium sector.

KEYWORDS: small and medium enterprises, economic development, jobs

JEL Classification: L11, L16

1. The concept of SME

Until January 1996 the small and medium enterprises were considered those enterprises whose total number of employees is less than 500 people, with the following subdivisions: micro-enterprises (1-9 employees), small enterprises (10-99 employees), and medium enterprises (100-499 employees).

The type of definition established, strictly on a single criterion – the number of people employed in enterprises – determined the termination of its use in the current statistics of the European Union.

In 1996, the European Commission establishes a new definition of small and medium enterprises based on four quantitative criteria (EC. 1996):

- a) The total number of employees in the enterprise;
- b) The annual volume of the turnover;
- c) The total of the assets in the enterprise balance;
- d) The degree of independence of the enterprise or the ownership over it.

According to it, an enterprise is deemed as having a small or medium size when the total number of its employees is below 250 people. The European Commission mentions that an enterprise can be deemed medium indeed, when it meets the following conditions simultaneously: the number of its employees is more than 49 and fewer than 250; the

¹ Ludovica Ioana SAVLOVSCHI, PhD Student, The Bucharest Academy of Economic Studies, Romania, ioanasavlovschi@yahoo.com

² Nicoleta Raluca ROBU, PhD Student, The Bucharest Academy of Economic Studies, Romania, robu_raluca@yahoo.com

annual turnover does not exceed 40 million euro or the total of the balance assets is not more than 27 million euro. Small enterprises are considered those enterprises which have no more than 50 employees and an annual turnover of at least 7 million euro or whose total balance assets do not exceed 5 million euro. Very small enterprises are defined as those with no more than 10 employees.

Along with them, a fundamental criterion must be considered, namely the form and modality of distribution of property within the enterprise (the criterion of independence towards the large enterprises). Therefore, it is necessary that the participation of a big enterprise in the ownership of a small or medium enterprise should be of no more than 25% of its share capital. This criterion allows for the differentiation of those enterprises which are really small and medium from those representing parts of big enterprises.

Considering the fact that both the turnover and the total amount of the balance are not defined unitarily in all the countries, these two criteria can lead to great difficulties in the classification of the enterprises.

2. The role of SMEs in the modern economy

For big companies, the SMEs represent the world from which they came and wherefrom their future competition will come. For individuals, SMEs often represent the first job, the first step in the career. They are also a first step to the world of entrepreneurs. For the economy in whole, the SMEs are launchers of new ideas and assemblage of new processed accelerating the increase based on a more effective use of resources (Zaman, Vilceanu 1999).

An important involvement of the external impact of small and medium enterprises is the fact that their contribution in the development is not limited to the sector of SMEs of the economy, but more than that, it is extended as impact on the enterprises not in this sector, with significant influences. Based on the study of vast literature, the report of the Observer "Small and Medium Enterprises in Europe 2003" (2003) claims that small and medium enterprises serve as engine of the economic growth.

The statistics in almost all the countries show that the SMEs are absolutely predominant in the economy, representing more than 99% of all the companies, having substantial influence on obtaining the gross domestic product and the supply of jobs.

An essential attribute of small and medium enterprises consists in the fact that they constitute an important source of jobs. Two thirds of the newly created jobs are owed to the small and medium sector. The costs associated to the creation of a job in a small or medium enterprise are reduced compared to the ones involved in the creation of a job in a big enterprise. The accomplishment of products and services at lower costs than the big companies; the main factors determining this difference are the lower conventional lower expenses, a higher work productivity under the circumstances of the permanent presence of the entrepreneur in the company.

The small and medium enterprises represent a factor of balance at the micro and macroeconomic level. Having as correspondent the middle class in the society, the small and medium enterprises counter-balance the monopolies and oligopolies, reducing the capacity of the big companies of controlling the market.

In the conditions of an economic environment in a permanent change, the SMEs are flexible and they have a great capacity of adjustment, encouraged by the low dimensions and the fast decisional process. They adapt easily to the requirement and demands of the consumers, being closer to the market.

Another important aspect is the fact that they generate to a greater extent the technical innovation applicable in the economy. Many of the jobs will come from the innovation and the new discoveries will bring about new entrepreneurial adventures. Paul Almeida, Professor at Georgetown University, thinks that “SMEs play a unique, active and critical role in the innovation process by their ability to invent in the new technological space and to improve the high technology information networks” (Almeida, 2004). This assertion is based on the empirical research in the avant-garde industries, carried out on a 10-year period (1994-2004). The specialists agree that the social networks, formal and informal, are vital to the innovation process in SMEs. The small companies establish regional networks more easily than big companies do. The creativity of small companies is the fuel of the entrepreneurial spirit and the economic growth.

John W Snow – Secretary of the U.S. Treasury, praising the entrepreneurial spirit in the USA, declares: “They are a category full of bravery ... no one works like them and no one takes greater risks”.

“What are the jobs of the future and where will they come from” is often the question addressed to the State Secretary. The short answer is that no one knows, but it is certain that small companies and the innovation will play a key role.

In the new context of the revolution of knowledge, of the passage from the economy dominated by the physical, tangible resources to the economy dominated by knowledge, the small and medium company becomes the main microeconomic pawn. The small number of components, the low dimensions of the tangible assets, the smaller complexity of the activities and supple structures make it easier to situate in the foreground the preoccupations, decisions and actions of the knowledge resource. The entrepreneurial spirit, the intense interpersonal relations and the pronounced group cohesion, the versatility, flexibility and organizational dynamism are defining elements for the economy and the company based on knowledge, which are found traditionally in the small, dynamic companies. Therefore, there is a high harmonization between the small company and the economy based on knowledge (Nicolescu, 2001).

Although the SMEs form the majority of the companies in the world, the percentage of the workforce that they hire varies from one country to another.

In the Philippines, it represents 50%, whereas in the E.U., the SMEs represent in 66.3%, in Greece this number is 86.7%.

In the case of OECD member countries, the SMEs represent more than 95% of the enterprises in most countries and they hire more than half of the employees in the private sector. In the New Zealand, for instance, nine out of ten companies hire less than ten people. This is utterly important considering the number of employees in this area, which is more than the double compared to the year 1997. Most OECD governments promote the entrepreneurship and consider the development of SMEs by countless policies and programs. In Great Britain this aims at fighting the difficulties of SMEs, regarding the financing, technology and innovation, electronic commerce, management and

internationalisation. In Korea, for example, the measures include taxation concessions and loans with low interest for the establishment of new companies in the rural areas.

In America, small companies got about 2 billion \$ in the financial year 2003, about 20% of all the subventions authorised for all the domains.

The politicians in Latin America, after focusing for years on massive investments and courting multinational companies, began realizing that the SMEs are real sources of job opportunities. Most companies (80-90%) are micro-enterprises, and the governments reduced the bureaucracy very much in order to make sure the requirements of the SMEs were rapidly considered. Among the important regional economies, only in Argentina there was a decrease of the number of SMEs between 1988 and 2002, while these types of companies flourished everywhere in Latin America, mostly in Brazil and Mexico. In Brazil, while the economy grew by only 0.8% in 1999, the SMEs grew by 6.5%. In Colombia, SMEs represent at the moment 36% of all the job opportunities and 63% of the jobs in industry.

Regarding the Asian part it is acknowledged the fact that, some of the most high-performance economies of the world (Taiwan and Hong Kong), strongly count on small enterprises.

81% of all the employees in Japan are concentrated in the SMEs, where an enterprise hires on average 9 employees compared to 4 in the E.U.

In South Africa, the number of employees in SMEs is higher, recently estimated at 60%, while this sector gives about 40% of the production.

The countries in course of development: The International Finance Corporation declares that: "in many countries in course of development, the private economy is almost entirely comprised in the SMEs" and that "they are the only realist possibility of employment for the millions of poor people in the entire world" ([www.prospects.ac.uk/SMEs/A world view.](http://www.prospects.ac.uk/SMEs/A_world_view/))

Conclusion

The role of small and medium enterprises is worldwide acknowledged for their unique contribution to the economic development. Both the developed countries and the ones in course of development realise that the SMEs and the entrepreneurs play a vital role in the industrial development of a country. So there is no surprise that the political strategists have often thought that the SMEs can become the "seed" of economic revival.

It is necessary that while the observance of thresholds regarding the average number of employees is compulsory, a SME can choose between observing either the threshold regarding the turnover in a year or the one regarding the total assets. It is not necessary to satisfy both criteria and one of them can be exceeded without losing the status of SME.

References

- Almeida, P. (2004). Small Firms and Innovation, "Entrepreneurship in the 21st Century"- Conference Proceedings, 26th april 2004, SUA
- EC. (1996). The proposal of the European Commission from April 3rd, 1996 concerning the definition of the small and medium enterprises (96/280/EC), published in the Official Gazette of the European Community on 30 April 1996
- Niculescu, O. (2001). *Managementul Intreprinderilor mici si mijlocii*, Editura Economică, Bucharest
- Popa I., Dobrin C., Ceptureanu S., Ceptureanu E. (2009). *Romanian SMEs' strategies, policies and competitive advantages*, International Association of Computer Science and Information Technology (IACSIT) conference proceedings, Singapore, pp. 620-626
- Zaman, C. (2007). *The Role of Small and Medium Size Enterprises in the Economy*, Handout, Institutional & Sector Modernisation Facility, Retrieved from http://www.ismf-eusy.org/ismf_reports/Reports/E043-05-07.pdf
- Zaman, G. & Vilceanu, G. (1999). *Coexistența întreprinderilor mari și mici*, Tribuna Economică, no. 45, 1999